

City of Boyne City, Michigan

BASIC FINANCIAL STATEMENTS

April 30, 2011

CITY OF BOYNE CITY, MICHIGAN

ORGANIZATION

MEMBERS OF THE CITY COMMISSION

MAYOR

CHUCK VONDRA

MAYOR PRO TEM

RONALD GRUNCH

COMMISSIONER

MICHAEL CUMMINGS

COMMISSIONER

LAURA SANSOM

COMMISSIONER

GENE TOWNE

APPOINTED OFFICERS

CITY MANAGER

MICHAEL CAIN

CLERK/TREASURER

CINDY GRICE

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
City of Boyne City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boyne City, Michigan, as of and for the year ended April 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Boyne City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Boyne City Housing Commission, a component unit of the City of Boyne City, which represent 26% of the net assets, and 54% of the revenues of the discretely presented component units of the City. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Boyne City Housing Commission, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our report and the report of other auditors the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boyne City, Michigan, as of April 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2011 on our consideration of the City of Boyne City, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, budgetary comparison information and schedule of funding progress as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Boyne City, Michigan's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 29, 2011

Management's Discussion and Analysis

As City Manager for the City of Boyne City, and head of the City's management team, it is my pleasure to welcome you to this review of our fiscal year ending April 30, 2011. This is the ninth of our annual financial audits that has incorporated the financial reporting changes called for in the GASB 34 standard. The goal of GASB 34 is to give the reviewer of this document a more balanced picture of the City's assets and liabilities. We hope that you will find that to be the case.

As management of the City of Boyne City, we offer readers of the City of Boyne City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended April 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City's primary government exceeded its liabilities at the close of the most recent fiscal year by \$18,202,085 (net assets). Of this amount, \$4,641,173 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$1,306,110.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,905,416 a decrease of \$517,415 in comparison with the prior year. Approximately 91% of the ending fund balances, or \$2,636,454 is available for spending at the City's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,446,522 or 66% of the total general fund expenditures, not including transfers out.
- The City's total debt not including the component units' activities decreased by \$519,274 during the current fiscal year. No significant new debt was issued this year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include the city council, general government, public safety, public works, health and welfare, community development, recreation and culture, and marina. The business-type activities of the City include water and sewer operations.

The government-wide financial statements include not only the City (known as the *primary government*), but also three legally separate authorities – the Downtown Development Authority, the Local Development Finance Authority and the Boyne City Housing Commission – for which the City is financially accountable. Financial information for these *component units* is reported in the supplementary information to these financial statements.

The government-wide financial statements can be found on pages 12-13 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The City maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major and Local Streets, Ambulance, and Vibrant Small Cities Funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for general and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets for the major funds.

The basic governmental fund financial statements can be found on pages 14-16 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its motor pool. Because the service benefits the General, Major and Local Streets, Fire and Water and Sewer Fund functions, the services have been allocated between the governmental and business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer Fund, which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 17-19 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-42 of this report.

Other information. The required supplementary information as well as the combining statements referred to earlier in connection with nonmajor governmental funds and component units are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 43-54 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$18,202,085 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets reflects its investment in capital assets (for example land, buildings, vehicles, equipment, and infrastructure); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot themselves be used to liquidate these liabilities.

**City of Boyne City
Condensed Statement of Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Assets						
Cash and Other Assets	\$ 3,857,252	\$ 4,164,966	\$ 2,179,316	\$ 2,190,485	\$ 6,036,568	\$ 6,355,451
Capital Assets, net of Accumulated Depreciation, where applicable	<u>6,596,961</u>	<u>5,800,117</u>	<u>13,888,583</u>	<u>13,454,526</u>	<u>20,485,544</u>	<u>19,254,643</u>
Total assets	<u>10,454,213</u>	<u>9,965,083</u>	<u>16,067,899</u>	<u>15,645,011</u>	<u>26,522,112</u>	<u>25,610,094</u>
Liabilities						
Current and Other Liabilities	243,888	270,870	610,389	509,447	854,277	780,317
Long-term Debt, net of Current Portion	<u>151,123</u>	<u>157,263</u>	<u>7,314,627</u>	<u>7,776,539</u>	<u>7,465,750</u>	<u>7,933,802</u>
Total Liabilities	<u>395,011</u>	<u>428,133</u>	<u>7,925,016</u>	<u>8,285,986</u>	<u>8,320,027</u>	<u>8,714,119</u>
Net assets						
Invested in Capital Assets, net of Related Debt	6,596,961	5,735,843	6,130,492	5,241,435	12,727,453	10,977,278
Restricted	268,962	200,914	564,497	414,747	833,459	615,661
Unrestricted	<u>3,193,279</u>	<u>3,600,193</u>	<u>1,447,894</u>	<u>1,702,843</u>	<u>4,641,173</u>	<u>5,303,036</u>
Total Net Assets	<u>\$ 10,059,202</u>	<u>\$ 9,536,950</u>	<u>\$ 8,142,883</u>	<u>\$ 7,359,025</u>	<u>\$ 18,202,085</u>	<u>\$ 16,895,975</u>

A portion of the City's net assets (4.58%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (25.50% or \$4,641,173) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities.

The City's net assets increased by \$1,306,110 during the current fiscal year. A substantial portion of this increase came from cash and equivalents.

Following is a comparison of the City's changes in net assets for the current and prior years:

**City of Boyne City
Condensed Statement of Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues						
Program Revenues						
Charges for Services	\$ 1,093,648	\$ 1,035,236	\$ 1,478,760	\$ 1,440,853	\$ 2,572,408	\$ 2,476,089
Operating Grants and Contributions	770,680	636,682	-	-	770,680	636,682
Capital Grants and Contributions	-	-	436,045	232,680	436,045	232,680
General Revenue						
Property Taxes	3,015,991	3,141,347	-	-	3,015,991	3,141,347
State Shared Revenues	250,368	298,118	-	-	250,368	298,118
Investment Earnings	11,601	19,954	2,392	5,368	13,993	25,322
Transfers	194,816	(6,717)	130,000	-	324,816	(6,717)
Other	571,928	426,705	213,189	-	785,117	426,705
Total Revenues	5,909,032	5,551,325	2,260,386	1,678,901	8,169,418	7,230,226
Expenses						
Legislative	16,612	15,911	-	-	16,612	15,911
General Government	1,139,799	1,240,244	-	-	1,139,799	1,240,244
Public Safety	852,170	875,309	-	-	852,170	875,309
Public Works	2,282,830	1,354,473	-	-	2,282,830	1,354,473
Health and Welfare	692,163	575,682	-	-	692,163	575,682
Recreation and Culture	250,120	279,953	-	-	250,120	279,953
Other Expenses	153,086	130,179	-	-	153,086	130,179
Water and Sewer	-	-	1,476,528	1,769,730	1,476,528	1,769,730
Total expenses	5,386,780	4,471,751	1,476,528	1,769,730	6,863,308	6,241,481
Changes in net assets	522,252	1,079,574	783,858	(90,829)	1,306,110	988,745
Net assets – beginning of year	9,536,950	8,457,376	7,359,025	7,439,313	16,895,975	15,896,689
Prior Period Adjustment	-	-	-	10,541	-	10,541
Net assets – end of year	\$ 10,059,202	\$ 9,536,950	\$ 8,142,883	\$ 7,359,025	\$ 18,202,085	\$ 16,895,975

Governmental activities: Governmental activities increased the City's net assets by \$522,252. Key elements of this increase are due to an increase in charges for services, operating grants and contributions, and operating revenue of motor pool.

Business-type activities: Business-type activities increased the City's net assets by \$783,858. Much of this increase was due to an increase in charges for services, capital grants and contributions, and other revenues in regards to reclassifying Boyne Mountain loan revenue.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,905,416, a decrease of \$517,415 in comparison with the prior year. Approximately \$2,636,454 constitutes *unreserved fund balance*, which is available for use at the City's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed as a reserve for specific purposes.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, of the total fund balance in the General Fund \$1,446,522 was unreserved. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures, not including transfers to other funds. Unreserved fund balance represents 66% of total General Fund expenditures.

The fund balance of the City's General Fund decreased by \$41,718 during the current fiscal year.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at the end of the year amounted to \$1,447,894 with capital assets net of related debt of \$6,130,492 and restricted net assets of \$564,497. The Wastewater and Water Funds had an increase in net assets of \$783,858. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights:

The original expenditures budgeted for the fiscal year end 2011 budget were \$2,586,757. The amended expenditures were \$2,517,214. Actual expenditures were \$2,204,675, a positive variance of \$312,539 from the amended budget.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business-type activities as of April 30, 2011, amounted to \$20,485,544 (net of accumulated depreciation). This investment in capital assets includes construction in progress, land, buildings and systems improvements, machinery and equipment, park facilities and roads. The total net increase in the City's investment in capital assets for the current fiscal year was \$1,230,881.

Major capital asset events during the current fiscal year included the following:

- Various repairs and maintenance.
- Capital improvements through CDBG project.
- Construction in progress.
- Various equipment purchases.

Additional information on the City's capital assets can be found Note 4 on pages 32-34 of this report.

**City of Boyne City
Capital Assets (Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$ 937,870	\$ 921,736	\$ -	\$ -	\$ 937,870	\$ 921,736
Construction in Progress	427,684	23,173	911,006	-	1,338,690	23,173
Land Improvements	305,461	341,147	-	-	305,461	341,147
Infrastructure	3,397,537	2,796,149	-	-	3,397,537	2,796,149
Buildings and Improvements	652,252	672,744	12,977,028	13,452,683	13,629,280	14,125,427
Equipment	871,468	1,036,726	549	1,863	872,017	1,038,589
Furniture and Fixtures	4,689	8,442	-	-	4,689	8,442
Total Net Assets	\$ 6,596,961	\$ 5,800,117	\$ 13,888,583	\$ 13,454,546	\$ 20,485,544	\$ 19,254,663

Note Payable Long-Term Debt. At the end of the current fiscal year, the City had total bonded debt payable outstanding of \$7,758,091 which comprises debt backed by the full faith and credit of the City. The City has also pledged its full faith and credit to the Downtown Development and Local Development Finance Authority Component Units bonded debt, note, and loan payable debt agreements of \$272,376.

City of Boyne City's Outstanding Debt
(general obligation and revenue bonds)

The City's primary government has \$7,758,091 in long-term debt. The breakdown of this debt is as follows:

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$ -	\$ -	\$ 7,758,091	\$ 8,213,091	\$ 7,758,091	\$ 8,213,091
Fire Truck	-	64,274	-	-	-	64,274
Total net debt	\$ -	\$ 64,274	\$ 7,758,091	\$ 8,213,091	\$ 7,758,091	\$ 8,277,365

The City and Component Units total debt decreased by \$590,521 during the current fiscal year, with no new debt issued during the fiscal year.

State statute limits the amount of general obligation debt a governmental entity may issue to ten percent of the local unit's total equalized valuation. The current debt limitation for the City is \$19,018,083, which is significantly greater than the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note 6 on pages 36-38 of this report.

Economic Factors and Next Year's Budget Considerations

While the audit before you reflects the fact that Boyne City remains in very good financial condition there, are both reasons for concern and optimism in the foreseeable future.

First, the concerns are that the national economy remains pretty much stalled with very few predictions of a turnaround coming anytime before next year's Presidential election. The ongoing rancor in Washington provides little hope of any meaningful changes taking place which will better position our country for future growth anytime soon.

On top of our ongoing national economic concerns, the world's economic climate is looking increasingly stormy and bleaker. The debt crisis's hitting many European countries, especially Greece, seem to be tracking in the wrong direction with increasing possibilities that failures abroad could have significant negative impacts on economies around the world, including ours right here in America.

Closer to home Michigan's economy continues to struggle, while our new Governor, Rick Snyder, seeks to reshape our State and make it more attractive to new and expanding businesses. Whether his initiatives will be successful and build a brighter future or continue Michigan's advance in the race to the bottom remain to be seen.

What is clear is that State continues to balance, at least in part, its books on the backs of many of its local communities. Statutory revenue sharing, which through its many cuts and freezes long ago gave up any appearance of keeping its financial pledges to the State's communities, has been transformed from a less and less guaranteed stream of income for local governments, to a still smaller carrot that is dangled out in front of communities in order to get them to jump through some hoops. This year's hoops involve "dashboards", intergovernmental cooperation, and employee benefits, areas which Boyne City has been pretty much a leader on in recent years. What hoops the State has for us in the years ahead and how high they will be is anybody's guess. What does appear clear is that there will be increasing conditions for a continually shrinking pot of money.

A renewed threat to local finances is the State's interest in doing away with Personal Property taxes as a mechanism to help encourage business growth in Michigan. A big unknown is what, if any, plans there will be to offset the loss of those revenues to local governments. Here at home the loss of Personal Property taxes would create a nearly \$200,000 hole in Boyne City's budget. We will have to wait and see what develops on this important issue.

Despite the storm clouds which have persisted over our State, nation and world for the last few years things continue to be increasingly sunny in Boyne City. We have not only survived but in many ways thrived through this economic upheaval. The fiscal year that this audit covers was another one that saw a significant amount of reinvestment in our basic infrastructures like our roads and water systems. Overall business remained fairly good in town with other communities in Northern Michigan reaching out to us to learn the secrets of our success. While there are plenty of real challenges for us to work on we seem to be doing better than most.

Not only does Boyne continue to invest in its future, but others do as well. Boyne is blessed to have three new businesses in our Business/Industrial Park currently preparing to open in new and existing facilities. In addition, new building construction is also taking place in both the commercial and residential sectors of our economy along with other efforts for significant reinvestment in other existing properties are also being actively pursued.

Boyne City also received its 2010 Census results which showed a 6% population growth, bucking the downward trend of Michigan, Charlevoix County and most other cities in Northern Michigan.

Taken together these efforts and results speak well for Boyne City's long term outlook. New jobs, tax base and people only build on the high quality natural environment we enjoy and can use in our efforts to build and maintain a sustainable local community.

We hope you find this audit helpful as you assess for yourself Boyne City's condition. Another tool you may wish to review is our new 'dashboard'. As noted above, Boyne City is following the lead of the State of Michigan and complying with its new revenue sharing mandate in providing a new "dashboard" to give interested persons yet another tool to help evaluate the condition of our community. The "dashboard" gives a quick overview of the City's condition by looking at a number of factors, including financial performance. We encourage you to visit www.boynecity.com and follow the links on our home page to our "dashboard" and related information. Let us know what you think.

Thanks to the many members of the community who help Boyne be such a special place. It's a team effort. With the City Commission, staff, businesses, residents, visitors, and countless volunteers continuing to work together for the greater good of our future conditions, financial and otherwise, will continue to remain strong.

Requests for Information

This discussion and analysis is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Michael Cain, Boyne City, City Manager, by mail at Boyne City, City Hall, 319 North Lake Street, Boyne City, Michigan 49712; phone at 231.582.0377 or via email at mcain@boynecity.com.

Basic Financial Statements

City of Boyne City, Michigan

Statement of Net Assets

April 30, 2011

	Primary Government			Component
	Governmental	Business-type	Totals	Units
	Activities	Activities		
ASSETS:				
Current Assets:				
Cash & Equivalents - Unrestricted	\$ 3,381,512	\$ 609,419	\$ 3,990,931	\$ 978,755
Cash & Equivalents - Restricted	-	675,545	675,545	-
Accounts Receivable	395,196	702,555	1,097,751	222,108
Internal Loans	(116,807)	116,807	-	-
Due From Governmental Units	107,953	-	107,953	-
Inventory	69,747	13,238	82,985	14,731
Prepays	19,651	-	19,651	6,598
Noncurrent Assets:				
Bond Issuance Costs	-	17,949	17,949	-
Notes Receivable	-	43,803	43,803	-
Capital Assets Not Depreciated	1,365,554	-	1,365,554	1,201,147
Capital Assets (Net of Accumulated Depreciation)	5,231,407	13,888,583	19,119,990	4,490,566
TOTAL ASSETS	\$ 10,454,213	\$ 16,067,899	\$ 26,522,112	\$ 6,913,905
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ 189,189	\$ 101,266	\$ 290,455	\$ 86,193
Accrued Liabilities	53,947	9,295	63,242	101,322
Accrued Interest Payable	752	16,500	17,252	-
Customer Deposits	-	18,328	18,328	-
Deferred Revenue	-	-	-	22,905
Notes Payable	-	-	-	73,941
Bonds Payable	-	465,000	465,000	-
Non-current Liabilities:				
OPEB Liability	9,172	-	9,172	-
Notes Payable	-	-	-	304,077
Bonds Payable	-	7,293,091	7,293,091	-
Compensated Absences	141,951	21,536	163,487	20,435
TOTAL LIABILITIES	395,011	7,925,016	8,320,027	608,873
NET ASSETS:				
Invested in Capital Assets (net of related debt)	6,596,961	6,130,492	12,727,453	5,313,695
Restricted for Other Post Employment Benefits	158,962	-	158,962	-
Restricted for Vehicle Purchase	110,000	-	110,000	-
Restricted for Debt Service	-	564,497	564,497	-
Restricted	-	-	-	30,790
Unrestricted	3,193,279	1,447,894	4,641,173	960,547
TOTAL NET ASSETS	\$ 10,059,202	\$ 8,142,883	\$ 18,202,085	\$ 6,305,032

City of Boyne City, Michigan

Statement of Activities For the Year Ended April 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
Legislative	\$ 16,612	\$ -	\$ -	\$ -	\$ (16,612)	\$ -	\$ (16,612)	\$ -
General Government	1,139,799	64,948	18,952	-	(1,055,899)	-	(1,055,899)	-
Public Safety	852,170	202,331	692	-	(649,147)	-	(649,147)	-
Public Works	2,282,830	351,380	687,091	-	(1,244,359)	-	(1,244,359)	-
Health and Welfare	692,163	474,989	63,945	-	(153,229)	-	(153,229)	-
Recreation & Culture	250,120	-	-	-	(250,120)	-	(250,120)	-
Other Expenses	153,086	-	-	-	(153,086)	-	(153,086)	-
Total Governmental Activities	5,386,780	1,093,648	770,680	-	(3,522,452)	-	(3,522,452)	-
Business-type activities:								
Sewer	881,574	890,537	-	125,819	-	134,782	134,782	-
Water	594,954	588,223	-	310,226	-	303,495	303,495	-
Total Business-type Activities	1,476,528	1,478,760	-	436,045	-	438,277	438,277	-
Total Primary Government	\$ 6,863,308	\$ 2,572,408	\$ 770,680	\$ 436,045	(3,522,452)	438,277	(3,084,175)	-
Component Units:								
Local Development Finance Authority	\$ 113,690	\$ -	\$ -	\$ -				(113,690)
Downtown Development Authority	547,218	2,791	115,662	41,060				(387,705)
Boyne City Housing Commission	890,498	245,057	418,982	212,629				(13,830)
Total Component Units	1,551,406	247,848	534,644	253,689				(515,225)
Total	\$ 8,414,714	\$ 2,820,256	\$ 1,305,324	\$ 689,734				
General Revenues:								
Property Taxes					3,015,991	-	3,015,991	561,355
State Shared Revenue					250,368	-	250,368	-
Investment Earnings (Loss)					11,601	2,392	13,993	1,900
Transfers					194,816	130,000	324,816	(324,816)
Other Revenue					571,928	213,189	785,117	29,554
Total General Revenues and Transfers					4,044,704	345,581	4,390,285	267,993
Changes in Net Assets					522,252	783,858	1,306,110	(247,232)
Net Assets - Beginning					9,536,950	7,359,025	16,895,975	6,550,425
Prior Period Adjustment					-	-	-	1,839
Net Assets - Ending					\$ 10,059,202	\$ 8,142,883	\$ 18,202,085	\$ 6,305,032

See accompanying notes to financial statements.

City of Boyne City, Michigan

Balance Sheet Governmental Funds April 30, 2011

	General	Major Street	Local Street	Ambulance	Vibrant Small Cities	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:							
Cash & Equivalents - Unrestricted	\$ 906,474	\$ 321,947	\$ 305,371	\$ 21,404	\$ 721,161	\$ 451,643	\$ 2,728,000
Accounts Receivable	97,060	-	-	94,662	-	203,280	395,002
Prepays	19,651	-	-	-	-	-	19,651
Inventory	-	-	-	-	-	13,835	13,835
Due from Other Funds	725,357	-	-	-	-	-	725,357
Due from Governmental Units	44,375	42,592	20,986	-	-	-	107,953
TOTAL ASSETS	\$ 1,792,917	\$ 364,539	\$ 326,357	\$ 116,066	\$ 721,161	\$ 668,758	\$ 3,989,798
LIABILITIES:							
Accounts Payable	\$ 149,036	\$ 5,499	\$ 16,794	\$ 5,395	\$ -	\$ 8,685	\$ 185,409
Accrued Liabilities	38,397	4,450	5,587	2,153	-	1,517	52,104
Due to Other Funds	-	116,807	-	4,196	721,161	-	842,164
Deferred Revenue	-	-	-	-	-	4,705	4,705
TOTAL LIABILITIES	187,433	126,756	22,381	11,744	721,161	14,907	1,084,382
FUND BALANCES:							
Reserved:							
Other Post Employment Benefits	158,962	-	-	-	-	-	158,962
Vehicle Purchase	-	-	-	50,000	-	60,000	110,000
Unreserved:							
Undesignated	1,446,522	237,783	303,976	54,322	-	593,851	2,636,454
TOTAL FUND BALANCES	1,605,484	237,783	303,976	104,322	-	653,851	2,905,416
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,792,917	\$ 364,539	\$ 326,357	\$ 116,066	\$ 721,161	\$ 668,758	
Reconciliation to amounts reported for governmental activities in the statement of net assets:							
Capital assets used by governmental activities							6,494,469
Compensated absences liability							(135,151)
OPEB Liability							(9,172)
Deferred Revenue							4,705
Accrued interest expense							(752)
Internal service funds included in governmental activities							799,687
Net assets of governmental activities							\$ 10,059,202

See accompanying notes to financial statements.

City of Boyne City, Michigan

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended April 30, 2011

	General	Major Street	Local Street	Ambulance	Vibrant Small Cities	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES:							
Taxes	\$ 2,810,242	\$ 102,875	\$ 102,874	\$ -	\$ -	\$ -	\$ 3,015,991
Federal Sources	200	11,965	325,102	-	-	-	337,267
State Revenues	269,812	232,233	117,791	-	-	-	619,836
Local Revenues	-	-	-	63,945	-	-	63,945
Charges for Services	151,498	459	15,596	474,989	-	451,106	1,093,648
Interest	10,245	539	91	103	-	623	11,601
Other Revenue	461,209	-	-	2,857	-	7,313	471,379
TOTAL REVENUES	3,703,206	348,071	561,454	541,894	-	459,042	5,613,667
EXPENDITURES:							
Legislative	16,612	-	-	-	-	-	16,612
General Government	1,220,523	-	-	-	-	-	1,220,523
Public Safety	572,628	-	-	-	-	217,882	790,510
Public Works	26,184	1,493,649	1,368,310	-	-	284,905	3,173,048
Health & Welfare	1,172	-	-	685,768	-	-	686,940
Recreation & Cultural	220,790	-	-	-	-	-	220,790
Debt Service	-	-	-	-	-	70,709	70,709
Other Expenditures	146,766	-	-	-	-	-	146,766
TOTAL EXPENDITURES	2,204,675	1,493,649	1,368,310	685,768	-	573,496	6,325,898
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,498,531	(1,145,578)	(806,856)	(143,874)	-	(114,454)	(712,231)
OTHER FINANCING SOURCES (USES):							
Operating Transfers In	-	719,816	814,000	88,323	-	112,926	1,735,065
Operating Transfers Out	(1,540,249)	-	-	-	-	-	(1,540,249)
TOTAL OTHER FINANCING SOURCES (USES)	(1,540,249)	719,816	814,000	88,323	-	112,926	194,816
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(41,718)	(425,762)	7,144	(55,551)	-	(1,528)	(517,415)
FUND BALANCES, MAY 1	1,647,202	663,545	296,832	159,873	-	655,379	3,422,831
FUND BALANCES, APRIL 30	\$ 1,605,484	\$ 237,783	\$ 303,976	\$ 104,322	\$ -	\$ 653,851	\$ 2,905,416

See accompanying notes to financial statements.

City of Boyne City, Michigan

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended April 30, 2011

Net Changes in fund balances - total governmental funds \$ (517,415)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

This is the amount by which capital outlay \$1,254,479 was more than depreciation expense of (\$385,165) in the current period. 869,314

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal payments 64,274

An internal service fund is used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. 100,549

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:

Compensated absences 3,585
Accrued Interest 1,945

Changes in net assets of governmental activities \$ 522,252

City of Boyne City, Michigan

Statement of Net Assets Proprietary Funds April 30, 2011

	Business - type Activities		Governmental Activities	
	Enterprise Funds		Total Business-Type	Internal Service-Motor Pool
	Sewer	Water		
ASSETS:				
Current Assets				
Cash & Equivalents - Unrestricted	\$ 609,419	\$ -	\$ 609,419	\$ 653,512
Due from Other Funds	116,807	-	116,807	-
Accounts Receivable	465,807	236,748	702,555	194
Inventory	3,298	9,940	13,238	55,912
Total Current Assets	1,195,331	246,688	1,442,019	709,618
Restricted Cash & Equivalents				
Bond Reserve	521,172	101,517	622,689	-
Bond and Interest Redemption	43,325	9,531	52,856	-
Total Restricted Cash & Equivalents	564,497	111,048	675,545	-
Noncurrent Assets				
Bond Issuance Costs	17,949	-	17,949	-
Notes Receivable	43,803	-	43,803	-
Capital Assets (Net of Accumulated Depreciation)	10,856,915	3,031,668	13,888,583	102,492
Total Noncurrent Assets	10,918,667	3,031,668	13,950,335	102,492
TOTAL ASSETS	\$ 12,678,495	\$ 3,389,404	\$ 16,067,899	\$ 812,110
LIABILITIES:				
Current Liabilities				
Accounts Payable	\$ 6,108	\$ 95,158	\$ 101,266	\$ 3,780
Accrued Liabilities	18,660	7,135	25,795	1,843
Customer Deposits	11,861	6,467	18,328	-
Bonds Payable	380,000	85,000	465,000	-
Total Current Liabilities	416,629	193,760	610,389	5,623
Noncurrent Liabilities				
Compensated Absences	4,253	17,283	21,536	6,800
Bonds Payable	6,203,091	1,090,000	7,293,091	-
Total Noncurrent Liabilities	6,207,344	1,107,283	7,314,627	6,800
TOTAL LIABILITIES	6,623,973	1,301,043	7,925,016	12,423
NET ASSETS:				
Invested in Capital Assets (net of related debt)	4,273,824	1,856,668	6,130,492	102,492
Restricted for				
Bond Reserve	521,172	-	521,172	-
Bond and Interest Redemption	43,325	-	43,325	-
Unrestricted	1,216,201	231,693	1,447,894	697,195
TOTAL NET ASSETS	\$ 6,054,522	\$ 2,088,361	\$ 8,142,883	\$ 799,687

See accompanying notes to financial statements.

City of Boyne City, Michigan

Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds For the Year Ended April 30, 2011

	Business - type Activities			Governmental Activities
	Enterprise Funds		Total Business- Type	Internal Service- Motor Pool
	Sewer	Water		
OPERATING REVENUES:				
Charges for Services	\$ 890,537	\$ 588,223	\$ 1,478,760	\$ 354,432
Total Operating Revenues	890,537	588,223	1,478,760	354,432
OPERATING EXPENSES:				
Personal Services	146,557	206,859	353,416	75,379
Contracted Services	59,279	57,540	116,819	16,926
Supplies	31,708	28,494	60,202	34,722
Utilities	131,386	31,036	162,422	21,094
Repair and Maintenance	60,883	21,471	82,354	36,579
Depreciation Expense	297,655	218,054	515,709	72,470
Total Operating Expenses	727,468	563,454	1,290,922	257,170
OPERATING INCOME (LOSS)	163,069	24,769	187,838	97,262
NON-OPERATING REVENUES (EXPENSES):				
Interest Income	2,081	311	2,392	780
Sale of Equipment	-	-	-	2,507
Capital Grants	125,819	310,226	436,045	-
Other Revenue	213,189	-	213,189	-
Bond Issue Expense	(6,353)	-	(6,353)	-
Interest Expense	(147,753)	(31,500)	(179,253)	-
Total Non-operating Revenues (Expenses)	186,983	279,037	466,020	3,287
Income (loss) before transfers	350,052	303,806	653,858	100,549
Operating Transfers In	-	130,000	130,000	-
CHANGES IN NET ASSETS	350,052	433,806	783,858	100,549
NET ASSETS, MAY 1	5,704,470	1,654,555	7,359,025	699,138
NET ASSETS, APRIL 30	\$ 6,054,522	\$ 2,088,361	\$ 8,142,883	\$ 799,687

City of Boyne City, Michigan

Statement of Cash Flows Proprietary Fund Types For the Year Ended April 30, 2011

	Business - Type Activities		Governmental Activities	
	Enterprise Funds		Total Business-Type	Internal Service-Motor Pool
	Sewer	Water		
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from Customers	\$ 695,127	\$ 485,736	\$ 1,180,863	\$ 354,432
Payments to Suppliers	(285,937)	(50,266)	(336,203)	(137,014)
Payments to Employees	(142,502)	(208,026)	(350,528)	(78,636)
Internal Activity - Payments/Receipts with Other Funds	14,053	-	14,053	-
Net Cash Provided (Used) by Operating Activities	280,741	227,444	508,185	138,782
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital Grants	125,819	310,226	436,045	-
Other Revenue	213,189	-	213,189	-
Purchase of Assets	(273,800)	(675,965)	(949,765)	-
Sale of Assets	-	-	-	2,507
Bond Principal	(370,000)	(85,000)	(455,000)	-
Notes Receivable	5,270	-	5,270	-
Interest Payments	(147,753)	(31,500)	(179,253)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(447,275)	(482,239)	(929,514)	2,507
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:				
Transfers In	-	130,000	130,000	-
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	-	130,000	130,000	-
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest Income	2,081	311	2,392	780
Net Cash Provided (Used) by Investing Activities	2,081	311	2,392	780
Net Increase (Decrease) in Cash and Equivalents	(164,453)	(124,484)	(288,937)	142,069
Balances - Beginning of the Year	1,338,369	235,532	1,573,901	511,443
Balances - End of the Year	\$ 1,173,916	\$ 111,048	\$ 1,284,964	\$ 653,512
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 163,069	\$ 24,769	\$ 187,838	\$ 97,262
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	297,655	218,054	515,709	72,470
(Increase) Decrease in Assets:				
Accounts Receivable	(196,610)	(102,561)	(299,171)	-
Inventory	(2,359)	(1,914)	(4,273)	(23,893)
Due from other funds	14,053	-	14,053	-
Increase (Decrease) in Liabilities:				
Accounts Payable	(322)	90,189	89,867	(3,800)
Accrued Liabilities	1,806	(2,006)	(200)	(702)
Customer Deposits	1,200	74	1,274	-
Compensated Absences	2,249	839	3,088	(2,555)
Net Cash Provided (Used) by Operating Activities	\$ 280,741	\$ 227,444	\$ 508,185	\$ 138,782

Statement of Fiduciary Net Assets
Fiduciary Funds
April 30, 2011

	<u>Agency Funds</u>
ASSETS:	
Cash & Equivalents - Unrestricted	<u>\$ 53,830</u>
 TOTAL ASSETS	 <u><u>\$ 53,830</u></u>
 LIABILITIES:	
Deposits Payable	\$ 12,834
Due to Other Governmental Units	<u> 40,996</u>
 TOTAL LIABILITIES	 <u><u>\$ 53,830</u></u>

Component Units

City of Boyne City, Michigan

Statement of Net Assets Component Units April 30, 2011

	Local Development Finance Authority	Downtown Development Authority	Boyne City Housing Commission	Totals
ASSETS:				
Current Assets:				
Cash & Equivalents - Unrestricted	\$ 901,130	\$ 17,326	\$ 60,299	\$ 978,755
Accounts Receivable	-	50,258	171,850	222,108
Prepaid Expense	-	-	14,731	14,731
Inventory	-	-	6,598	6,598
Noncurrent Assets:				
Capital Assets Not Depreciated	291,419	-	909,728	1,201,147
Capital Assets (Net of Accumulated Depreciation)	1,438,820	2,261,620	790,126	4,490,566
TOTAL ASSETS	\$ 2,631,369	\$ 2,329,204	\$ 1,953,332	\$ 6,913,905
LIABILITIES:				
Current Liabilities:				
Accounts Payable	\$ 2,452	\$ 3,211	\$ 80,530	\$ 86,193
Accrued Liabilities	-	1,672	99,650	101,322
Notes Payable - Current	58,266	5,496	10,179	73,941
Deferred Revenue	-	22,300	605	22,905
Non-Current Liabilities:				
Notes Payable	170,307	38,307	95,463	304,077
Compensated Absences	-	-	20,435	20,435
TOTAL LIABILITIES	231,025	70,986	306,862	608,873
NET ASSETS:				
Invested in Capital Assets, net of related debt	1,501,666	2,217,817	1,594,212	5,313,695
Restricted	-	-	30,790	30,790
Unrestricted	898,678	40,401	21,468	960,547
TOTAL NET ASSETS	2,400,344	2,258,218	1,646,470	6,305,032
TOTAL LIABILITIES AND NET ASSETS	\$ 2,631,369	\$ 2,329,204	\$ 1,953,332	\$ 6,913,905

City of Boyne City, Michigan

Statement of Activities Component Units For the Year Ended April 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Local Development Finance Authority	Downtown Development Authority	Boyne City Housing Commission	Total
Local Development Finance Authority:								
Economic Development	\$ 113,690	\$ -	\$ -	\$ -	\$ (113,690)	\$ -	\$ -	\$ (113,690)
Downtown Development Authority:								
Economic Development	547,218	2,791	115,662	41,060	-	(387,705)	-	(387,705)
Boyne City Housing Commission								
Health and Welfare	890,498	245,057	418,982	212,629	-	-	(13,830)	(13,830)
Total Component Units	<u>\$ 1,551,406</u>	<u>\$ 247,848</u>	<u>\$ 534,644</u>	<u>\$ 253,689</u>	<u>(113,690)</u>	<u>(387,705)</u>	<u>(13,830)</u>	<u>(515,225)</u>
General Revenues:								
Taxes					218,768	342,587	-	561,355
Interest Income					1,643	47	210	1,900
Transfers					(324,816)	-	-	(324,816)
Other					-	-	29,554	29,554
Total General Revenues					<u>(104,405)</u>	<u>342,634</u>	<u>29,764</u>	<u>267,993</u>
Changes in Net Assets					(218,095)	(45,071)	15,934	(247,232)
Net Assets - Beginning					<u>2,618,439</u>	<u>2,303,289</u>	<u>1,628,697</u>	<u>6,550,425</u>
Prior Period Adjustment					-	-	1,839	1,839
Net Assets - Ending					<u>\$ 2,400,344</u>	<u>\$ 2,258,218</u>	<u>\$ 1,646,470</u>	<u>\$ 6,305,032</u>

See accompanying notes to financial statements.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. Reporting Entity**

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of *the City of Boyne City* (the “City”) and its component units. The component units discussed below are included in the City’s reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Units

The Downtown Development Authority (the “DDA”) is reported in a separate column to emphasize that it is legally separate from the City. The members of the governing board of the DDA are appointed by the City Council. The budgets and expenditures of the DDA must be approved by the City Council. The City also has the ability to significantly influence operations of the DDA. A complete financial statement of the DDA can be obtained from the City Treasurer, City of Boyne City 319 North Lake Street, Boyne City, Michigan 49712.

The Local Development Finance Authority (the “LDFA”) is reported in a separate column to emphasize that it is legally separate from the City. The members of the governing board of the LDFA are appointed by the City Council. The budgets and expenditures of the LDFA must be approved by the City Council. The City also has the ability to significantly influence operations of the LDFA. A complete financial statement of the LDFA can be obtained from the City Treasurer, City of Boyne City, 319 North Lake Street, Boyne City, Michigan 49712.

The Boyne City Housing Commission is reported in a separate column to emphasize that it is legally separate from the City. The members of the governing board of the Commission are appointed by the City Council. The budgets and expenditures of the Commission must be approved by the City Council. The City also has the ability to significantly influence operations of the Commission. A complete financial statement of the Commission can be obtained from Sheila Smith, Executive Director, Boyne City Housing Commission, 829 South Park Street, Boyne City, Michigan 49712.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from the legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* accounts for the use of motor fuel taxes which are restricted by State statutes for major street and highway purposes.

The *Local Street Fund* accounts for the use of motor fuel taxes which are restricted by State statute for local street purposes.

The *Ambulance Fund* accounts for the activities of the City's ambulance department.

The *Vibrant Small Cities Fund* accounts for City's match of grant funds.

The City reports the following major proprietary funds:

The *Sewer Fund* accounts for the activities of the City's sewage disposal and sewer treatment system.

The *Water Fund* accounts for the activities of the City's water distribution and water treatment system.

Additionally, the City reports the following fund types:

Special Revenue Funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt Service Funds. These funds account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

Capital Project Funds. These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Internal Service Fund. This fund accounts for operations that provide machinery and equipment to other departments of the City on a cost-reimbursement basis.

Agency Funds. These funds account for assets held for others in an agency capacity.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash is received.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within 60 days after year-end. Property taxes, state revenue, and interest are considered to be susceptible to accrual. Grant revenues are considered to be available when all eligibility requirements imposed by the grantor have been met.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

The government-wide financial statements and proprietary funds of the City follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and proprietary type funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Equity***Deposits and Investments***

The City's cash and equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize and the City's investment policy allows, the City to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

The City Commissioners have designated four banks for the deposit of City funds. The investment policy adopted by the commission in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and certificated of deposit. Investments are stated at fair value.

Receivables and Payables

All receivables are reported at their gross value.

The ambulance fund receivables are shown net of an allowance for uncollectible accounts. It is composed of expected Medicaid and Medicare write-offs and accounts receivable in excess of 120 days, which amounted to \$4,190.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Inventory

Inventory held by general, enterprise and internal service funds are valued at cost utilizing the first-in, first-out method of accounting. The cost value of such inventories has been treated as an expenditure at the time of purchase.

Property Taxes

The City’s property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Charlevoix County.

Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the state at an estimated 50% of current market value. Real and personal property in the City for the 2010 levy were assessed and equalized at \$190,180,825, representing 50% of estimated current market value. The government’s general operating tax rate for fiscal year 2010 was 15.76 mills.

Property taxes for the DDA and LDFA are derived by capturing the taxes assessed on the increase in taxable value of the property located within the DDA and LDFA City.

Property taxes are recognized in the fiscal year in which they are levied.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Buildings	20-50 years
Land improvements	10-40 years
Equipment	5-20 years
Vehicles	5-10 years
Public domain infrastructure	20 years
Sewer and water infrastructure	20-50 years

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time is accumulated up to a maximum of 720 hours and upon retirement the employee will receive for sick time an amount based on the number of years of service multiplied by 1.5%. Vacation time will be paid in full. The liability for these amounts is included in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example as a result of employee resignations or retirements.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Subsequent Events***

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY***Budgetary Information***

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The City Commission, by resolution, adopts a budget for the next fiscal year no later than the third week in April of each year.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. The City shall appropriate the money needed for municipal purposes during the next fiscal year of the City and shall provide for a levy of the amount necessary to be raised by taxes upon real and personal property.
- d. Budgetary control is exercised at the functional level, which is the level at which expenditures may not legally exceed appropriations. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the City Council. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The City does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the functional level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash and Equivalents - Unrestricted	\$ 3,381,512	\$ 609,419	\$ 3,990,931	\$ 53,830	\$ 978,755
Cash and Equivalents - Restricted	-	675,545	675,545	-	-
Total	<u>\$ 3,381,512</u>	<u>\$ 1,284,964</u>	<u>\$ 4,666,476</u>	<u>\$ 53,830</u>	<u>\$ 978,755</u>

Cash is restricted in the amount of \$675,545 for the Bond Reserve Account within the Wastewater and Water Funds.

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Bank Deposits (checking and savings accounts, certificates of deposit and money market accounts)	\$ 4,666,176	\$ 53,830	\$ 978,585
Petty Cash and Cash on Hand	<u>300</u>	<u>-</u>	<u>170</u>
Total	<u>\$ 4,666,476</u>	<u>\$ 83,830</u>	<u>\$ 978,755</u>

Interest rate risk. The City does have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The City has an investment policy that would further limit its investment choices.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require but the City does have a policy for deposit custodial credit risk. As of year end, \$141,189 of the City's bank balance of \$5,792,870 was exposed to credit risk because it was uninsured and uncollateralized.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the City to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Banker's acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The City's deposits and investment policy are in accordance with statutory authority.

These deposits are in various financial institutions in varying amounts. All accounts are in the name of the City and specific funds. They are recorded in City records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 921,736	\$ 16,134	\$ -	\$ 937,870
Construction in progress	<u>23,173</u>	<u>427,684</u>	<u>(23,173)</u>	<u>427,684</u>
Subtotal	<u>944,909</u>	<u>443,818</u>	<u>(23,173)</u>	<u>1,365,554</u>
<i>Capital assets being depreciated:</i>				
Land improvements	1,354,528	20,228	-	1,374,756
Infrastructure	3,327,059	768,900	-	4,095,959
Buildings and improvements	1,544,104	14,950	-	1,559,054
Equipment	3,599,109	31,586	(36,611)	3,594,084
Furniture and fixtures	<u>137,545</u>	<u>-</u>	<u>-</u>	<u>137,545</u>
Subtotal	<u>9,962,345</u>	<u>835,664</u>	<u>(36,611)</u>	<u>10,761,398</u>
<i>Less accumulated depreciation for:</i>				
Land improvements	(1,013,381)	(55,914)	-	(1,069,295)
Infrastructure	(530,910)	(167,512)	-	(698,422)
Buildings and improvements	(871,360)	(35,442)	-	(906,802)
Equipment	(2,562,383)	(195,014)	34,781	(2,722,616)
Furniture and fixtures	<u>(129,103)</u>	<u>(3,753)</u>	<u>-</u>	<u>(132,856)</u>
Subtotal	<u>(5,107,137)</u>	<u>(457,635)</u>	<u>34,781</u>	<u>(5,529,991)</u>
Net capital assets being depreciated	<u>4,855,208</u>	<u>378,029</u>	<u>(1,830)</u>	<u>5,231,407</u>
Governmental Activities Capital Assets – Net of Depreciation	<u>\$ 5,800,117</u>	<u>\$ 821,847</u>	<u>\$ (25,003)</u>	<u>\$ 6,596,961</u>
Governmental Activities:				
General government			\$ 123,554	
Public Safety			92,182	
Public Works			207,346	
Health and Welfare			5,223	
Recreation and Culture			<u>29,330</u>	
Total Depreciation Expense - Governmental Activities			<u>\$ 457,635</u>	

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ -	\$ 251,457	\$ -	\$ 251,457
Construction in progress	-	659,549	-	659,549
Subtotal	-	911,006	-	911,006
<i>Capital assets being depreciated:</i>				
Water system plant	6,027,587	16,416	-	6,044,003
Sanitary sewer disposal	13,146,491	22,343	-	13,168,834
Equipment	352,638	-	-	352,638
Subtotal	19,526,716	38,759	-	19,565,475
<i>Less accumulated and improvements</i>				
Water system plant	(3,454,743)	(217,416)	-	(3,672,159)
Sanitary sewer disposal	(2,266,652)	(296,998)	-	(2,563,650)
Equipment	(350,775)	(1,314)	-	(352,089)
Subtotal	(6,072,170)	(515,728)	-	(6,587,898)
Net capital assets being depreciated	13,454,546	(476,969)	-	12,977,577
Business-type Activities Capital Assets - Net of Depreciation	<u>\$ 13,454,546</u>	<u>\$ 434,037</u>	<u>\$ -</u>	<u>\$ 13,888,583</u>
Business-type Activities				
Sewer			\$ 297,654	
Water			<u>218,074</u>	
Total Depreciation Expense - Business-type Activities			<u>\$ 515,728</u>	

Component Units:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Downtown Development Authority				
<i>Capital assets being depreciated:</i>				
Infrastructure	\$ 2,801,686	\$ 35,507	\$ -	\$ 2,837,193
<i>Less accumulated depreciation</i>	(449,324)	(126,249)	-	(575,573)
Net capital assets being depreciated	2,352,362	(90,742)	-	2,261,620
Net Capital Assets	<u>\$ 2,352,362</u>	<u>\$ (90,742)</u>	<u>\$ -</u>	<u>\$ 2,261,620</u>

NOTE 4 - CAPITAL ASSETS (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Local Development Finance Authority				
<i>Capital assets not being depreciated:</i>				
Land	\$ 291,419	\$ -	\$ -	\$ 291,419
<i>Capital assets being depreciated:</i>				
Infrastructure	1,997,920	-	-	1,997,920
<i>Less accumulated depreciation</i>	(516,951)	(42,149)	-	(559,100)
Net capital assets being depreciated	1,480,969	(42,149)	-	1,438,820
Net Capital Assets	<u>\$ 1,772,388</u>	<u>\$ (42,149)</u>	<u>\$ -</u>	<u>\$ 1,730,239</u>
	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Boyne City Housing Commission				
<i>Capital assets not being depreciated:</i>				
Land	\$ 794,268	\$ 2,000	\$ -	\$ 796,268
Construction in Progress	-	113,460	-	113,460
Subtotal	794,268	115,460	-	909,728
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	3,175,240	9,382	-	3,184,622
Furniture, Fixtures, Equipment	205,466	2,017	-	207,483
Subtotal	3,380,706	11,399	-	3,392,105
<i>Less accumulated depreciation</i>	(2,483,647)	(118,332)	-	(2,601,979)
Net capital assets being depreciated	897,059	(106,933)	-	790,126
Net Capital Assets	<u>\$ 1,691,327</u>	<u>\$ 8,527</u>	<u>\$ -</u>	<u>\$ 1,699,854</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Component Units

Downtown Development Authority	\$ 126,249
Local Development Finance Authority	42,149
Boyne City Housing Commission	<u>118,332</u>
Total Depreciation Expense - Component Units	<u>\$ 286,730</u>

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The City reports interfund balances between its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds. Interfund transactions resulting in interfund Receivables and Payables are as follows:

		DUE TO OTHER FUNDS		
DUE FROM OTHER FUNDS		General Fund	Sewer Funds	Totals
	Major Street Fund	\$ -	\$ 116,807	\$ 116,807
	Ambulance	4,196	-	4,196
	Vibrant Small Cities	721,161	-	721,161
	Totals	\$ 725,357	\$ 116,807	\$ 842,164

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers:

		TRANSFERS IN					
TRANSFERS OUT		Major Streets Fund	Local Streets Fund	Ambulance Fund	Nonmajor Governmental Funds	Water Fund	Totals
	General Fund	\$ 395,000	\$ 814,000	\$ 88,323	\$ 112,926	\$ 130,000	\$ 1,540,249
	Component Unit	324,816	-	-	-	-	324,816
	Totals	\$ 719,816	\$ 814,000	\$ 88,323	\$ 112,926	\$ 130,000	\$ 1,865,065

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. City contractual agreements and installment purchase agreements are also general obligations of the government.

Bond and contractual obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Increases/ Adjustments</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Governmental Activities – Notes Payable					
2004 note payable for purchase of a fire truck, maturing serially in 2011 in annual amounts ranging from \$51,955 to \$64,274 and bearing interest at 3.61%, secured by asset.	\$ 64,274	\$ -	\$ 64,274	\$ -	\$ -
Total Governmental Activities – Notes Payable	64,274	-	64,274	-	-
<u>Component Units:</u>					
Component Unit - DDA					
Notes Payable					
2008 note payable for improvement projects, maturing serially in 2017 in annual amounts of \$7,300 and bearing interest at 4.25%.	49,073	-	5,270	43,803	5,496
Component Unit – LDFA					
Notes Payable					
2005 general government note payable, maturing serially 2015 in annual amounts of \$64,989 and bearing interest at 0%.	284,983	-	56,410	228,573	58,266
Component Unit – Housing Commission					
Note Payable					
2008 bank loan payable, maturing serially 2017 in annual amounts of \$3,990 and bearing interest at 5.88%.	26,496	-	2,046	24,450	2,177
Component Unit – Housing Commission					
Note Payable					
2008 bank loan payable, maturing serially 2017 in annual amounts of \$12,493 and bearing interest at 4.13%.	88,713	-	7,521	81,192	8,002
Total Component Units	449,265	-	71,247	378,018	73,941

NOTE 6 - LONG-TERM DEBT (Continued)

	Beginning Balance	Increases/ Adjustments	Decreases	Ending Balance	Due Within One Year
<u>Business Type Activities:</u>					
Business-type Activities – Bond Payable					
Series 2003, Water Supply and Sewage Disposal System Revenue Bonds, maturing serially in 2023 in annual amounts ranging from \$70,000 to \$110,000 and bearing interest at 2.50%.	1,260,000	-	85,000	1,175,000	85,000
Business-type Activities – Bond Payable					
Series 2004, Water Supply and Sewage Disposal System Revenue Bonds, maturing serially in 2026 in annual amounts ranging from \$340,000 to \$510,000 and bearing interest at 2.13%.	6,953,091	-	370,000	6,583,091	380,000
Total Business-type Activities – Bond Payable	8,213,091	-	455,000	7,758,091	465,000
Governmental Compensated Absences	148,091	-	6,140	141,951	-
Business-type Compensated Absences	18,448	3,088	-	21,536	-
Component Units Compensated Absences	18,418	3,140	1,123	20,435	11,949
Total Long-Term Debt	\$ 8,911,587	\$ 6,228	\$ 597,784	\$ 8,320,031	\$ 550,890

Boyne Mountain reimburses the wastewater fund for 43.5% of the Series 2004 Water Supply & Sewage Disposal System Revenue Bonds debt service payments.

Annual debt service requirements to maturity for the above obligations are as follows:

	Business-type Activities		Component Units	
	Bond Payable		Notes Payable	
	Principal	Interest	Principal	Interest
Fiscal:				
2012	\$ 465,000	\$ 169,266	\$ 83,797	\$ 7,899
2013	475,000	159,066	84,690	6,720
2014	485,000	148,634	88,212	4,771
2015	495,000	137,991	89,388	5,040
2016	505,000	127,134	13,402	3,081
2017-2021	2,705,000	464,234	18,529	3,240
2022-2026	2,628,091	162,640	-	-
TOTALS	\$ 7,758,091	\$ 1,368,965	\$ 378,018	\$ 30,751

NOTE 6 - LONG-TERM DEBT (Continued)

Accumulated Sick and Vacation Pay

Employees of the City earn sick and vacation time at varying rates based on the following:

Under the terms of the City's personnel policies, sick leave is accumulated at the rate of one day for each month of service, with a maximum accumulation of 90 days. Employees who have accumulated more than 90 days will not be allowed additional accumulation. All regular employees are credited with 1 ½ percent per year of employment up to 90 days and are paid this 1 ½ percent per year of service upon reaching retirement.

Any employee not using sick leave during the year will be given the following personal days off:

<u>Sick Leave Days Taken</u>	<u>Personal Days Earned</u>
0-3	3
4-6	2
7-12	0

Vacation leave is earned based on the following schedule for all employees:

<u>Years of Service</u>	<u>Vacation Days</u>
1	5
2-5	10

After 5 years of service, 1 vacation day is added for each additional year employed.

Vacation time accrues and is credited to eligible employees on their anniversary date of hire based upon their years of continuous service with the City. Vacation time not used within the employee's anniversary year it is earned will be lost at the end of that year; unless under a written request for unusual circumstances.

The accumulated sick and vacation pay liability is \$163,487 at April 30, 2011.

NOTE 7 - RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which it obtains coverage from commercial insurance companies. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

NOTE 8 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS**Plan Description**

The City's defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917-9755 or by calling (800) 767-6377.

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate ranges from 6.40% to 11.18% of annual covered payroll. City employees are required to contribute 4.7% of all covered wages. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Cost

For the year ended April 30, 2011, the City's annual pension cost of \$178,879 for MERS was equal to the City's required and actual contributions. The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases up to 4.2% per year, depending on age, attributable to seniority/merit, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2009, the date of the last actuarial valuation, was 26 years.

Three-year Trend Information			
Year Ended April 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 186,027	100%	0
2010	166,539	100%	0
2011	178,879	100%	0

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS

Primary Government

Plan Description. The City administers a single-employer healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare insurance for eligible retirees through the City’s group health insurance plan, which covers both active and retired members. Benefit provisions are established through negotiations between the City and employees. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy. Contribution requirements also are negotiated between the City and employees. The City contributes 27% of the cost of current-year premiums for eligible retired plan members. For fiscal year 2011, the City contributed \$3,572 to the plan. Total member contributions were \$17,288.

Annual OPEB Cost and Net OPEB Obligation. The City’s annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$ 29,481
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>29,481</u>
Contributions made	<u>(20,309)</u>
Increase in net OPEB obligation	9,172
Net OPEB obligation – beginning of year	<u>-</u>
Net OPEB obligation – end of year	<u>\$ 9,172</u>

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 is as follows:

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 29,481	69%	\$ 9,172

Funded Status and Funding Progress. As of December 31, 2010, the actuarial accrued liability for benefits was \$374,894, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was unavailable, and the ratio of the unfunded actuarial accrued liability to the covered payroll was unavailable.

NOTE 9 - OTHER POST-EMPLOYMENT BENEFITS (Continue)

Actuarial valuation of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2010, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 8.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 10% initially, reduced by decrements to an ultimate rate of 4.5% after ten years. Both rates included a percent inflation assumptions. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis.

NOTE 10 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Segment information for the year ended April 30, 2011, is as follows:

	Sewer	Water
Nonoperating revenue (expense)	\$ 186,983	\$ 279,037
Operating income (loss)	163,069	24,769
Changes in net assets	350,052	433,806
Operating revenues	890,537	588,223
Operating expenses	727,468	563,454
Depreciation	297,655	218,054
Total assets	12,678,495	3,389,404
Current liabilities	416,629	193,760
Long-term debt payable	6,207,344	1,107,283
Beginning net assets	5,704,470	1,654,555
Ending net assets	6,054,522	2,088,361

NOTE 10 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS (Continued)

	<u>Sewer</u>	<u>Water</u>
Cash provided by:		
Operating activities	280,741	227,445
Capital financing	(447,275)	(482,239)
Noncapital financing	-	130,000
Investing	2,081	311
Beginning cash	1,338,369	235,532
Ending cash	1,173,916	111,048

NOTE 11 - SUBSEQUENT EVENT

On June 28, 2011, the City accepted a grant agreement with the State of Michigan MDNR for 50% funding for replacing and extending the current day dock/fishing pier and converting five current fixed piers into ramped floating piers in the amount of approximately \$210,500.

Note 12 - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 2 of 1968, as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City's actual expenditures were in excess of amounts appropriated as follows:

	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Expenditures</u>	<u>Budget</u> <u>Variance</u>
Ambulance Fund:			
Health and Welfare	\$ 674,687	\$ 685,768	\$ (11,081)

Required Supplementary Information

Employee Retirement and Benefit Systems
Schedule of Funding Progress
April 30, 2011

Pension:

Three year trend information as of December 31 follows:

	2008	2009	2011
Actuarial Value of Assets	\$ 6,806,351	\$ 6,878,657	\$ 7,037,213
Actuarial Accrued Liability	8,178,602	8,382,522	8,653,675
Unfunded AAL	1,372,251	1,503,865	1,616,462
Funded Ratio	83%	82%	81%
Covered Payroll	1,343,547	1,306,338	1,318,808
UAAL as a Percentage of Covered Payroll	102%	115%	123%

Health Plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b - a) / c)
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Primary Government

2010	\$	-	\$ 374,894	\$ 374,894	0.0%	Not Available	-
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City of Boyne City, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund For the Year Ended April 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 2,824,506	\$ 2,812,830	\$ 2,810,242	\$ (2,588)
Federal Sources	-	200	200	-
State Sources	296,311	314,192	269,812	(44,380)
Charges for Services	146,000	149,150	151,498	2,348
Interest & Rent	15,430	10,700	10,245	(455)
Other Revenue	517,745	507,513	461,209	(46,304)
TOTAL REVENUES	3,799,992	3,794,585	3,703,206	(91,379)
EXPENDITURES:				
Legislative:				
City Commission	17,418	16,610	16,612	(2)
General Government:				
General Administration	548,039	536,866	531,357	5,509
Elections	4,200	2,926	2,926	-
Legal & Accounting	72,500	62,500	64,717	(2,217)
Planning	146,623	151,528	152,293	(765)
Assessor	93,700	76,325	76,458	(133)
Building and Grounds	315,660	164,890	129,680	35,210
Housing Commission	305,000	305,000	263,092	41,908
Total General Government	1,485,722	1,300,035	1,220,523	79,512
Public Safety:				
Police Department	611,043	612,441	572,628	39,813
Total Public Safety	611,043	612,441	572,628	39,813
Public Works:				
Sidewalk Construction	64,000	31,500	26,184	5,316
Total Public Works	64,000	31,500	26,184	5,316
Health and Welfare:				
Environmental	1,232	1,172	1,172	-
Total Health and Welfare	1,232	1,172	1,172	-
Recreation and Culture:				
Parks and Recreation	269,445	239,207	219,298	19,909
Museum	3,042	1,765	1,492	273
Total Recreation & Culture	272,487	240,972	220,790	20,182
Other Expenditures:				
Other	134,855	184,484	146,766	37,718
Total Other Expenditures	134,855	184,484	146,766	37,718
TOTAL EXPENDITURES	2,586,757	2,387,214	2,204,675	182,539

City of Boyne City, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund For the Year Ended April 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXCESS OF REVENUES OVER EXPENDITURES	1,213,235	1,407,371	1,498,531	91,160
OTHER FINANCING SOURCES (USES):				
Operating Transfers Out	(1,381,340)	(1,536,926)	(1,540,249)	(3,323)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (168,105)</u>	<u>\$ (129,555)</u>	(41,718)	<u>\$ 87,837</u>
FUND BALANCE, MAY 1			<u>1,647,202</u>	
FUND BALANCE, APRIL 30			<u>\$ 1,605,484</u>	

City of Boyne City, Michigan

Required Supplementary Information Budgetary Comparison Schedule Major Street Fund For the Year Ended April 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 87,400	\$ 102,875	\$ 102,875	\$ -
Federal Sources	-	-	11,965	11,965
State Sources	230,000	235,076	232,233	(2,843)
Charges for Services	-	-	459	459
Interest	1,000	700	539	(161)
TOTAL REVENUES	318,400	338,651	348,071	9,420
EXPENDITURES:				
Public Works	1,743,680	1,714,916	1,493,649	221,267
EXCESS OF REVENUES OVER EXPENDITURES	(1,425,280)	(1,376,265)	(1,145,578)	230,687
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	745,000	738,556	719,816	(18,740)
Operating Transfers Out	(87,000)	(9,875)	-	9,875
TOTAL OTHER FINANCING SOURCES (USES)	658,000	728,681	719,816	(8,865)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (767,280)	\$ (647,584)	(425,762)	\$ 221,822
FUND BALANCE, MAY 1			663,545	
FUND BALANCE, APRIL 30			\$ 237,783	

City of Boyne City, Michigan

Required Supplementary Information Budgetary Comparison Schedule Local Street Fund For the Year Ended April 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 87,400	\$ 102,874	\$ 102,874	-
Federal Sources	367,923	367,923	325,102	(42,821)
State Sources	95,000	107,191	117,791	10,600
Charges for Services	-	15,596	15,596	-
Interest	-	91	91	-
TOTAL REVENUES	550,323	593,675	561,454	(32,221)
EXPENDITURES:				
Public Works	1,473,159	1,449,037	1,368,310	80,727
EXCESS OF REVENUES OVER EXPENDITURES	(922,836)	(855,362)	(806,856)	48,506
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	814,000	814,000	814,000	-
Operating Transfers Out	(111,900)	(13,849)	-	13,849
TOTAL OTHER FINANCING SOURCES (USES)	702,100	800,151	814,000	13,849
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (220,736)</u>	<u>\$ (55,211)</u>	7,144	<u>\$ 62,355</u>
FUND BALANCE, MAY 1			<u>296,832</u>	
FUND BALANCE, APRIL 30			<u>\$ 303,976</u>	

City of Boyne City, Michigan

Required Supplementary Information Budgetary Comparison Schedule Ambulance Fund For the Year Ended April 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Charges for Services	\$ 444,516	\$ 461,410	\$ 474,989	\$ 13,579
Local Revenues	55,350	64,000	63,945	(55)
Interest	100	100	103	3
Other Revenue	5,000	3,608	2,857	(751)
TOTAL REVENUES	504,966	529,118	541,894	12,776
EXPENDITURES:				
Health & Welfare	557,836	674,687	685,768	(11,081)
EXCESS OF REVENUES OVER EXPENDITURES	(52,870)	(145,569)	(143,874)	1,695
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	55,340	88,323	88,323	-
Operating Transfers Out	(9,000)	(66)	-	66
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ (6,530)	\$ (57,312)	(55,551)	\$ 1,761
FUND BALANCE, MAY 1			159,873	
FUND BALANCE, APRIL 30			\$ 104,322	

Other Supplementary Information

City of Boyne City, Michigan

Combining Balance Sheet Nonmajor Governmental Funds April 30, 2011

	Special Revenue Funds						Debt Service Funds		
	Rubbish Collection Fund	Creative Playground	Cemetery	Fire	Marina	Airport	1989 Bond Debt Streets	1989 Bond Debt Infrastructure	Total
ASSETS:									
Cash & Equivalents - Unrestricted	\$ -	\$ 450	\$ 44,907	\$ 224,657	\$ 162,600	\$ 19,029	\$ -	\$ -	\$ 451,643
Accounts Receivable	-	-	555	198,650	791	3,284	-	-	203,280
Inventory	-	-	-	-	-	13,835	-	-	13,835
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 450</u>	<u>\$ 45,462</u>	<u>\$ 423,307</u>	<u>\$ 163,391</u>	<u>\$ 36,148</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 668,758</u>
LIABILITIES:									
Accounts Payable	\$ -	\$ -	\$ 80	\$ 5,185	\$ 3,159	\$ 261	\$ -	\$ -	\$ 8,685
Accrued Liabilities	-	-	619	-	860	38	-	-	1,517
Deferred Revenue	-	-	4,705	-	-	-	-	-	4,705
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>5,404</u>	<u>5,185</u>	<u>4,019</u>	<u>299</u>	<u>-</u>	<u>-</u>	<u>14,907</u>
FUND BALANCES:									
Reserved:									
Vehicle Purchase	-	-	-	60,000	-	-	-	-	60,000
Unreserved:									
Undesignated	-	450	40,058	358,122	159,372	35,849	-	-	593,851
TOTAL FUND BALANCES	<u>-</u>	<u>450</u>	<u>40,058</u>	<u>418,122</u>	<u>159,372</u>	<u>35,849</u>	<u>-</u>	<u>-</u>	<u>653,851</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 450</u>	<u>\$ 45,462</u>	<u>\$ 423,307</u>	<u>\$ 163,391</u>	<u>\$ 36,148</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 668,758</u>

City of Boyne City, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds For the Year Ended April 30, 2011

	Special Revenue Funds						Debt Service Funds		
	Rubbish Collection Fund	Creative Playground	Cemetery	Fire	Marina	Airport	1989 Bond Debt Streets	1989 Bond Debt Infrastructure	Total
REVENUES:									
Charges for Services	\$ -	\$ -	\$ 18,350	\$ 196,140	\$ 132,931	\$ 103,685	\$ -	\$ -	\$ 451,106
Interest	-	2	65	331	193	30	-	2	623
Other Revenue	-	60	5,680	-	1,573	-	-	-	7,313
TOTAL REVENUES	-	62	24,095	196,471	134,697	103,715	-	2	459,042
EXPENDITURES:									
Public Safety	-	200	-	217,682	-	-	-	-	217,882
Public Works	30,926	-	62,965	-	79,737	111,277	-	-	284,905
Debt Service	-	-	-	64,274	-	-	459	5,976	70,709
TOTAL EXPENDITURES	30,926	200	62,965	281,956	79,737	111,277	459	5,976	573,496
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(30,926)	(138)	(38,870)	(85,485)	54,960	(7,562)	(459)	(5,974)	(114,454)
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	30,926	-	20,000	62,000	-	-	-	-	112,926
TOTAL OTHER FINANCING SOURCES (USES)	30,926	-	20,000	62,000	-	-	-	-	112,926
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-	(138)	(18,870)	(23,485)	54,960	(7,562)	(459)	(5,974)	(1,528)
FUND BALANCES, MAY 1	-	588	58,928	441,607	104,412	43,411	459	5,974	655,379
FUND BALANCES, APRIL 30	\$ -	\$ 450	\$ 40,058	\$ 418,122	\$ 159,372	\$ 35,849	\$ -	\$ -	\$ 653,851

City of Boyne City, Michigan

Combining Balance Sheet Component Units April 30, 2011

	Governmental Type Activities						Business Type Activities		
	Local Development Finance Authority	Adjustments	Statement of Net Assets	Downtown Development Authority	Adjustments	Statement of Net Assets	Boyne City Housing Commission	Adjustments	Statement of Net Assets
ASSETS:									
Cash & Equivalents - Unrestricted	\$ 901,130	\$ -	\$ 901,130	\$ 17,326	\$ -	\$ 17,326	\$ 60,299	\$ -	\$ 60,299
Receivables	-	-	-	50,258	-	50,258	171,850	-	171,850
Prepaid Expenses	-	-	-	-	-	-	14,731	-	14,731
Inventory	-	-	-	-	-	-	6,598	-	6,598
Capital Assets, not depreciated	-	291,419	291,419	-	-	-	909,728	-	909,728
Capital Assets, net of depreciation	-	1,438,820	1,438,820	-	2,261,620	2,261,620	790,126	-	790,126
TOTAL ASSETS	\$ 901,130	\$ 1,730,239	\$ 2,631,369	\$ 67,584	\$ 2,261,620	\$ 2,329,204	\$ 1,953,332	\$ -	\$ 1,953,332
LIABILITIES:									
Current Liabilities:									
Accounts Payable	\$ 2,452	\$ -	\$ 2,452	\$ 3,211	\$ -	\$ 3,211	\$ 80,530	\$ -	\$ 80,530
Accrued Liabilities	-	-	-	1,672	-	1,672	99,650	-	99,650
Note Payable	-	58,266	58,266	-	5,496	5,496	10,179	-	10,179
Deferred Revenues	-	-	-	22,300	-	22,300	605	-	605
Noncurrent Liabilities:									
Note Payable	-	170,307	170,307	-	38,307	38,307	95,463	-	95,463
Compensated Absences	-	-	-	-	-	-	20,435	-	20,435
TOTAL LIABILITIES	2,452	228,573	231,025	27,183	43,803	70,986	306,862	-	306,862
FUND BALANCE:									
Unreserved	898,678	(898,678)	-	40,401	(40,401)	-	-	-	-
TOTAL LIABILITIES & FUND BALANCE	\$ 901,130	(670,105)	\$ 231,025	\$ 67,584	3,402	\$ 70,986	\$ 306,862	\$ -	\$ 306,862
NET ASSETS:									
Invested in capital assets, net of related debt		1,501,666	1,501,666		2,217,817	2,217,817	1,594,212	-	1,594,212
Restricted		-	-		-	-	30,790	-	30,790
Unrestricted		898,678	898,678		40,401	40,401	21,468	-	21,468
Total net assets		\$ 2,400,344	\$ 2,400,344		\$ 2,258,218	\$ 2,258,218	\$ 1,646,470	-	\$ 1,646,470

City of Boyne City, Michigan

Combining Balance Sheet Component Units April 30, 2011

	Total All Component Units		
	Component Units	Adjustments	Statement of Activities
ASSETS:			
Cash & Equivalents - Unrestricted	\$ 978,755	\$ -	\$ 978,755
Receivables	222,108	-	222,108
Prepaid Expenses	14,731	-	14,731
Inventory	6,598	-	6,598
Capital Assets, not depreciated	909,728	291,419	1,201,147
Capital Assets, net of depreciation	<u>790,126</u>	<u>3,700,440</u>	<u>4,490,566</u>
TOTAL ASSETS	<u><u>\$ 2,922,046</u></u>	<u><u>\$ 3,991,859</u></u>	<u><u>\$ 6,913,905</u></u>
LIABILITIES:			
Current Liabilities:			
Accounts Payable	\$ 86,193	\$ -	\$ 86,193
Accrued Liabilities	101,322	-	101,322
Note Payable	10,179	63,762	73,941
Deferred Revenues	22,905	-	22,905
Noncurrent Liabilities:			
Note Payable	95,463	208,614	304,077
Compensated Absences	<u>20,435</u>	<u>-</u>	<u>20,435</u>
TOTAL LIABILITIES	<u><u>336,497</u></u>	<u><u>272,376</u></u>	<u><u>608,873</u></u>
FUND BALANCE:			
Unreserved	<u>939,079</u>	<u>(939,079)</u>	<u>-</u>
TOTAL LIABILITIES & FUND BALANCE	<u><u>\$ 1,275,576</u></u>	<u><u>\$ (666,703)</u></u>	<u><u>\$ 608,873</u></u>
NET ASSETS:			
Invested in capital assets, net of related debt	1,594,212	3,719,483	5,313,695
Restricted	30,790	-	30,790
Unrestricted	<u>21,468</u>	<u>939,079</u>	<u>960,547</u>
Total net assets	<u><u>\$ 1,646,470</u></u>	<u><u>\$ 4,658,562</u></u>	<u><u>\$ 6,305,032</u></u>

City of Boyne City, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance/Net Assets Component Units April 30, 2011

	Governmental Type Activities						Business Type Activities		
	Local Development Finance Authority	Adjustments	Statement of Activities	Downtown Development Authority	Adjustments	Statement of Activities	Boyne City Housing Commission	Adjustments	Statement of Activities
OPERATING REVENUES:									
Property Taxes	\$ 218,768	\$ -	\$ 218,768	\$ 342,587	\$ -	\$ 342,587	\$ -	\$ -	\$ -
Charges for Services	-	-	-	2,791	-	2,791	245,057	-	245,057
Capital Grants and Contributions	-	-	-	41,060	-	41,060	212,629	-	212,629
Operating Grants and Contributions	-	-	-	115,662	-	115,662	418,982	-	418,982
TOTAL OPERATING REVENUES	218,768	-	218,768	502,100	-	502,100	876,668	-	876,668
OPERATING EXPENSES:									
Economic Development	62,962	-	62,962	-	-	-	-	-	-
Health and Welfare	-	-	-	-	-	-	772,166	-	772,166
Other	-	-	-	454,446	(35,507)	418,939	-	-	-
Depreciation Expense	-	42,149	42,149	-	126,249	126,249	118,332	-	118,332
Debt Service									
Principal	56,410	(56,410)	-	5,270	(5,270)	-	-	-	-
Interest	8,579	-	8,579	2,030	-	2,030	-	-	-
TOTAL OPERATING EXPENSES	127,951	(14,261)	113,690	461,746	85,472	547,218	890,498	-	890,498
NON-OPERATING REVENUES (EXPENSES):									
Investment Earnings	1,643	-	1,643	47	-	47	210	-	210
Other	-	-	-	-	-	-	29,554	-	29,554
TOTAL NON-OPERATING REVENUES (EXPENSES)	1,643	-	1,643	47	-	47	29,764	-	29,764
OTHER FINANCING SOURCES (USES):									
Operating Transfers Out	(324,816)	-	(324,816)	-	-	-	-	-	-
Change in Fund Balance/Net Assets	(232,356)	232,356	-	40,401	(40,401)	-	-	-	-
Changes in Net Assets	-	(218,095)	(218,095)	-	(45,071)	(45,071)	15,934	-	15,934
Fund Balance/Net Assets Beginning of Year	1,131,034	1,487,405	2,618,439	-	2,303,289	2,303,289	1,628,697	-	1,628,697
Prior Period Adjustment	-	-	-	-	-	-	1,839	-	1,839
Fund Balance/Net Assets End of Year	\$ 898,678	\$ 1,501,666	\$ 2,400,344	\$ 40,401	\$ 2,217,817	\$ 2,258,218	\$ 1,646,470	\$ -	\$ 1,646,470

	Total All Component Units		
	Component Units	Adjustments	Statement of Activities
OPERATING REVENUES:			
Property Taxes	\$ 561,355	\$ -	\$ 561,355
Charges for Services	247,848	-	247,848
Capital Grants and Contributions	253,689	-	253,689
Operating Grants and Contributions	534,644	-	534,644
TOTAL OPERATING REVENUES	1,597,536	-	1,597,536
OPERATING EXPENSES:			
Economic Development	62,962	-	62,962
Health and Welfare	772,166	-	772,166
Other	454,446	(35,507)	418,939
Depreciation Expense	118,332	168,398	286,730
Debt Service			
Principal	61,680	(61,680)	-
Interest	10,609	-	10,609
TOTAL OPERATING EXPENSES	1,480,195	71,211	1,551,406
NON-OPERATING REVENUES (EXPENSES):			
Investment Earnings	1,900	-	1,900
Other	29,554	-	29,554
TOTAL NON-OPERATING REVENUES (EXPENSES)	31,454	-	31,454
OTHER FINANCING SOURCES (USES):			
Operating Transfers Out	(324,816)	-	(324,816)
Change in Fund Balance/Net Assets	(191,955)	191,955	-
Changes in Net Assets	15,934	(263,166)	(247,232)
Fund Balance/Net Assets Beginning of Year	2,759,731	3,790,694	6,550,425
Prior Period Adjustment	1,839	-	1,839
Fund Balance/Net Assets End of Year	\$ 2,585,549	\$ 3,719,483	\$ 6,305,032

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members
of the City Council
City of Boyne City, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boyne City, Michigan as of and for the year ended April 30, 2011, which collectively comprise the City of Boyne City, Michigan's basic financial statements and have issued our report thereon, dated August 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Boyne City Housing Commission, a discretely presented component unit, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Boyne City's, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Honorable Mayor and Members
of the City Council

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Boyne City, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 11-1 and 11-2.

We noted certain matters that we reported to management of the City of Boyne City, Michigan in a separate letter dated August 29, 2011.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, City Council, Management, federal awarding agencies, pass-through entities, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 29, 2011



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Members
of the City Council
City of Boyne City, Michigan

Compliance

We have audited the City of Boyne City, Michigan's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Boyne City, Michigan's major federal programs for the year ended April 30, 2011. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City of Boyne City's basic financial statements include the operations of the Boyne City Housing Commission which received \$631,611 in federal awards which is not included in this schedule during the year ended April 30, 2011. Our audit, described below, did not include the operations of the Boyne City Housing Commission because they engaged other auditors to perform the audits in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended April 30, 2011.

Honorable Mayor and Members
of the City Council

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Mayor, City Council, Management, federal awarding agencies, pass-through entities, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 29, 2011

Schedule of Expenditures of Federal Awards Year Ended April 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Pass-through programs from the Michigan State Housing Development Authority</i>			
Community Development Block Grant			
Boyne City Main Street Façade Enhancement Project	14.228	CDBG - 200716 - CAT	\$ 10,652
Dilworth Hotel Planning Study	14.228	MSC - 209132 - EDIG	18,999
North East Street Infrastructure Improvements Project	14.228	MSC - 209076 - ICE	560,521
Water Systems Improvement Project	14.228	MSC - 209150 - ICE	224,000
Total - Michigan State Housing Development Authority			<u>814,172</u>
Total - U.S. Department of Housing and Urban Development			<u>814,172</u>
U.S. DEPARTMENT OF AGRICULTURE			
<i>Pass-through program from the Michigan Department of Natural Resources and Environment</i>			
<i>- Forest, Mineral and Fire Management</i>			
Cooperative Forestry Assistance - Arbor Day Mini Grant	10.664	N/A	<u>200</u>
Total - U.S. Department of Agriculture			<u>200</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 814,372</u>

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Boyne City, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - COGNIZANT AGENCY

The City has not been assigned a cognizant agency. Therefore, the City is under the general oversight the U.S. Department of Housing and Urban Development which provided the greatest amount of indirect federal funding to the City during 2011.

NOTE C - AGENCY OR PASS-THROUGH NUMBER

For all grants that an agency or pass-through number is not available an N/A is listed to note that.

NOTE D - FEDERAL REVENUES

Federal Revenues per Financial Statement	\$ 773,312
Add: Component Unit Federal Revenues	<u>41,060</u>
Total Federal Expenditures	<u>\$ 814,372</u>

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of Major Programs

CFDA NUMBERS

Name of Federal Program or Cluster

14.228	Vibrant Small Cities
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Noncompliance with State Statutes

Credit Card Policy

Finding 11-1

Criteria: In accordance with PA 266 of 1995, local units of government are required to adopt a credit card policy with specific statutory requirements.

Condition: The City has not implemented a credit card policy as required by PA 266 of 1995, specifically:

- An employee who is issued a credit card shall return the credit card to the Treasurer upon termination of his or her employment or service with the board.
- The Board shall not approve a payment to the entity issuing the credit card until all transactions have been verified, including the approval of all transactions invoices, if issued.

Effect: The City is violating the above stated act and as a result could have inappropriate use of credit cards.

Cause: Unknown.

Recommendation: The City should adopt a credit card policy to comply with PA 266 of 1995, to insure proper use of the City's credit cards.

- *Contact Person(s) Responsible for Correction:*
Cindy Grice, Treasurer
- *Corrective Action Planned:*
The City will adopt the appropriate credit card policy as soon as possible.

Section II – Financial Statement Findings (Continued)

Noncompliance with State Statues

Expenditures in Excess of Appropriations—Budgetary Funds

Finding 11-2

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

Condition: Our examination of procedures used by the City of Boyne City to adopt and maintain operating budgets for the City's budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The City's 2010-2011 General Appropriations Act (budget) provided for expenditures of the Ambulance Fund to be controlled to the activity level. As detailed, actual 2010-2011 expenditures exceeded the board's approved budget allocations for some ambulance fund activities.

During the fiscal year ended April 30, 2011, expenditures were incurred in excess of amounts appropriated in the amended budget for the general fund on page 48 of the financial statements.

Effect: Condition's may violate State Law.

Cause: Unknown.

Recommendation: We recommend that the City and personnel responsible for administering the activities of the various funds of the City, develop budgetary control procedures for the general fund, which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

- *Contact Person(s) Responsible for Correction:*
Cindy Grice, Treasurer
- *Corrective Action Planned:*
Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.

Section III – Federal Award Findings and Questioned Costs

NONE.

Section II – Financial Statement Findings

NONE.

Section III – Federal Award Findings and Questioned Costs

NONE.



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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Honorable Mayor and Members
of the City Council
City of Boyne City, Michigan

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boyne City, Michigan for the year ended April 30, 2011, and have issued our report thereon dated August 29, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated July 11, 2011, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City of Boyne City, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City of Boyne City, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City of Boyne City, Michigan's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the City of Boyne City, Michigan's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Boyne City, Michigan's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on July 11, 2011.

Significant Accounting Policies

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Boyne City, Michigan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible accounts receivable is based on past experience and future expectations for collection of various account balances and has been determined to be \$4,190.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 29, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Comments and Recommendations

The following is a summary of our observations with suggestions for improvements we believe should be brought to your attention. We noted no material matters involving the internal control over financial reporting and compliance, as reported in a separate letter in accordance with Government Auditing Standards of the basic financial statement audit report.

Fraud Policy (Prior Year)

With the implementation of Statement of Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks within a governmental entity. The City of Boyne City does not have a “fraud policy” which would address fraud or suspected fraud and related board actions. We recommend the Board adopt a fraud policy in compliance with SAS No. 99.

Status: Corrected.

Accounting and Financial Reporting for Intangible Assets (Prior Year)

In June of 2007, the GASB issued Statement No. 51, to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments.

Status: Uncorrected.

Fixed Asset Listing (Prior Year)

Currently the City does not maintain a listing of fixed assets. It is recommended that the City keep a fixed asset listing and update with any asset purchases and dispositions throughout the fiscal year.

Status: In progress.

GASB 54 Fund Balance Components (Prior Year)

The Governmental Accounting Standards Board has issued a pronouncement, GASB #54 – Fund Balance Reporting and Governmental Fund Type Definitions. GASB #54 eliminates the current use of the terms reserved and designated in the reporting of fund balance, and replaces those terms with five new categories for segregating fund balance. The Standard is effective for periods beginning after June 15, 2010.

Following are the new categories and related definitions to be used for describing the components of your fund balance:

- **Non-spendable** – Includes amounts either not in spendable form or legally or contractually required to be maintained intact. This would include inventory, prepaids, and non-current receivables.
- **Restricted** – Reflects the same definition as Restricted net assets: Constraints placed on the use of amounts are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. This would generally include amounts in bonded capital projects funds and debt service funds.

- **Committed** – Includes amounts that are committed for specific purposes by formal action of the government’s highest level of decision-making authority. Amounts classified as “committed” are not subject to legal enforceability like restricted fund balance; however, those amounts cannot be used for any other purpose unless the government removes or changes the limitation by taking the same form of action it employed to previously imposed the limitation.
- **Assigned** – Amounts that are intended by the government to be used for specific purposes, but are neither restricted nor limited, should be reported as assigned fund balance. Intent should be expressed by the Board itself or a subordinate high-level body or official possessing the authority to assign amounts to be used for specific purposes in accordance with policies established by the board. This would include ANY activity reported in a fund other than the General Fund.
- **Unassigned** – Includes any remaining amounts after applying the above definitions. Planned spending in the subsequent year’s budget would be included here and can no longer be described as “designated”.

The Standard also requires disclosure in the financial statements of any minimum fund balance policies. We encourage the City to become familiar with the new terms and definitions and work with the users of the financial statements to ensure a clear presentation and understanding of the new requirements.

Status: Working towards implementation.

Uniform Chart of Accounts

Currently there are several balance sheet and income statement accounts that are coded incorrectly per the Uniform Chart of Accounts. It is recommended that the City consult with the Uniform Chart of Accounts for appropriate account numbers for all line items.

Tax Receipts/Disbursements

It was noted during test of controls for tax receipts/disbursements, that taxes were not disbursed within the appropriate timeline. It is recommended that the City disburse taxes in a timelier manner.

Payroll

During test of controls for payroll, it was noted that some employees did not have authorized pay rates. In addition, some employees did not have their deductions authorized. It is recommended that each employee have pay rate authorization and all deduction authorizations in their personnel file.

Cash

During testing it was noted that there were multiple checks that were “stale” and still being accounted for on the bank reconciliation. It is recommended that bank reconciliations be checked for long outstanding checks and those checks be properly voided and reissued if necessary.

Conclusion

This information is intended solely for the use of the Mayor, City Council and management of the City of Boyne City and is not intended to be and should not be used by anyone other than these specified parties.

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of any further assistance, please contact us.



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 29, 2011